KAPS
ANNUAL REPORT
1971

KAPS TRANSPORT LTD.
ANNUAL REPORT
JUNE, 1971

DIRECTORS

Reinhold Kapchinsky	Edmonton, Alberta
Gerhard Kapchinsky	Ft. St. John, B.C.
Helmut Kapchinsky	Edmonton, Alberta
Robert A. Dunn	Edmonton, Alberta
Lorne C. Leitch	Edmonton, Alberta
Frederick N. Hughes	Winnipeg, Manitoba
Richard A. N. Bonnycastle	Calgary, Alberta

OFFICERS

President	Reinhold Kapchinsky
Vice-President	Gerhard Kapchinsky
Vice-President	Helmut Kapchinsky
Vice-President	Leonard Carpentier
Vice-President	Walter Horton
Vice-President	Rex. W. Dales
Vice-President	Jimmy D. Bruce
Vice-President	Douglas G. Moffat
Secretary	Marvin W. Phillips
Treasurer	Marvin W. Phillips

KAPS

Registered Offices.
9520 - 51st Avenue Edmonton, Alberta
Transfer Agent & Registrar
Royal Trust Company, Edmonton
Vancouver, Winnipeg and Toronto
Stock Exchange
Toronto Stock Exchange
Bank:
Bank of Montreal
Auditors:
Thorne, Gunn, Helliwell & Christenson
Edmonton, Alberta
Annual Meeting:
November 1, 1971 at 4:00 p.m.
Macdonald Hotel
Edmonton, Alberta

INDEX

FINANCIAL HIGHLIGHTS

	1971	1970	1969	1968
Total Revenue	$16,193,000	$14,047,000	$ 8,034,000	$6,480,000
Net Income (note 1)	$ 784,000	$ 1,227,000	$ 869,000	$ 488,000
Net Return (note 2)	4.8%	8.7%	8.5%	7.6%
Net Income per Common Share				
Before extraordinary income	34.0c	60.5c	38.8c	28.0c
Extraordinary income	____	____	11.2c	____
Net Income	34.0c	60.5c	50.0c	28.0c
Cash Flow	$ 2,689,000	$ 2,715,000	$ 1,486,000	$ 967,000
— per Common Share	$1.17	$1.34	$.85	$.56
Shareholders Equity	$10,116,000	$ 7,229,000	$ 3,118,000	$2,439,000
— per Common Share	$4.15	$3.34	$1.79	$1.40
Total Assets	$21,860,000	$15,918,000	$10,299,000	$4,678,000
Share Outstanding (note 3)	2,306,845	2,027,010	1,740,000	1,740,000
Working Capital	$ 1,316,000	$ 1,370,000	$ 1,085,000	$ 53,000

Note 1 — including extraordinary income

Note 2 — exluding extraordinary income

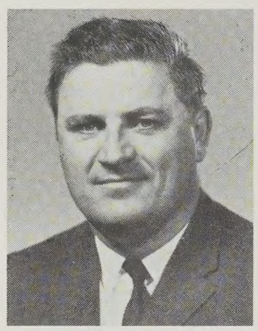
Note 3 — weighted average shares outstanding for the year. Shares outstanding in 1968 and 1969 are adjusted for the 3 for 1 stock split of November 1969 and all per share figures are adjusted accordingly.

OPERATIONAL HIGHLIGHTS

- Purchased
  - Arctic Shallow Marine Ltd.
  - Moffat Tank Co. Ltd.
- Incorporated
  - Mackenzie Air Ltd.
  - Harvey Agencies Ltd.
  - K.C. Services Ltd.
- Issued 225,000 common shares of the company at $9.60 per common share under prospectus dated December 1, 1970.
- Designed and had built a terra tired vehicle a picture of which appears in this report.
- Had an air charter license granted to Mackenzie Air Ltd.
- Constructed and launched
  - Six anti-pollution type barges
  - one ocean going dual purpose tug
- Entered into a joint venture with J. Ray McDermott Arctic Ltd. for ownership of the ocean going dual purpose tug and future offshore drilling equipment.

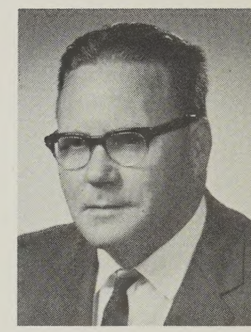
Mr. Reinhold Kapchinsky
President, Director and
Chief Executive Officer

Mr. Helmut Kapchinsky
Director and Vice-President
Sales and Public Relations



Mr. Gerhard Kapchinsky
Director and Vice-President
British Columbia Operations

Mr. Leonard Carpentier
Vice-President Land
Operations and Special Projects

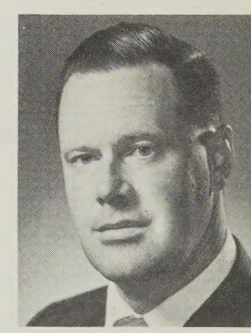


Mr. Walter Horton
Vice-President Marine
Operations and Maintenance

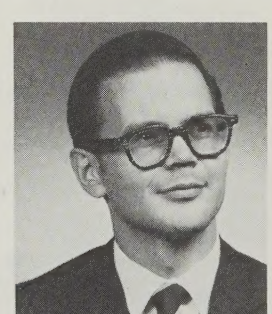
Mr. Jim Bruce
Vice-President Pipeline
Operations

Mr. Douglas Moffat
Vice-President Kaps Transport
Ltd. and President Moffat
Tank Co. Ltd.

Mr. Rex W. Dales
Vice-President Kaps Transport
Ltd. and President R. R. Dales
Construction Co. Ltd.



Mr. Harlen Kennedy
Vice-President and General
Manager Norcan Parts and
Equipment (1965) Ltd.



Mr. Marvin W. Phillips
Secretary and Treasurer.

REPORT TO SHAREHOLDERS

Economic conditions that have prevailed over the past period and the cost of steps taken to further improve your company's position to benefit from the expected economic growth of Canada's North and Alaska have had an adverse effect on your company's earnings during the year-ended June 30, 1971.

Despite an increase in revenue of 15% from $14,047,000 to $16,193,000, net profit after tax declined from $1,227,000 to $784,000 or from 60.5c per share to 34.0c per share. Cash flow was $2,689,000 or $1.17 per share compared to $2,715,000 or $1.34 per share. Many factors affected the decrease in net return after taxes on gross revenue from 8.7% to 4.8%.

The main thrust of the oil and gas exploration shifted from Alaska's North Slope to Canada's North and your company moved its operation accordingly. It set up a base camp on Banks Island and an operational base at Inuvik in the Northwest Territories. These mobilization costs were written off during the period under review but benefits from these expenditures will be realized over subsequent periods. The slowdown in Alaska was also greater than expected and was due mainly to the delay in construction of pipelines from the North Slope. This delay has caused your company's work on the North Slope and the "TAPS" line to come to a standstill. Your company's Alaska operations have now been reduced to minimize losses. Some costs continue as management feels your company's position in that area must be maintained for the future benefits which may result from the eventual construction of pipelines along with the resultant activity.

The general economic slowdown was felt, though not as hard, throughout the rest of your company's operations and resulted in reduced margins. Steps have been taken to minimize costs and increase efficiency. It is felt that as service has been a major factor in your company's past success it must be maintained, at the cost of reduced margins, with the view of benefits accruing to your company with the eventual increase in economic activity.

Many steps in long range planning were also completed during the current period which, due to costs of instigating being expensed, helped to reduce margins.

A 50-50 joint venture was entered into with J. Ray McDermott Arctic Ltd. a wholly owned Canadian subsidiary of J. Ray McDermott Co. Inc. This joint venture is to study the feasibility of the building and use of off-shore drilling equipment in the Beaufort Sea and, if feasible, the construction and ownership of same. As a result of these continuing studies the joint venture has had a tug, designed to haul deck cargo, move conventional barges and move, service and set anchors for off-shore drilling barges constructed.

This tug has been moving conventional barges in this area since early July of this year. This tug along with six fuel and deck cargo barges, specially designed to reduce fuel pollution risk, were constructed by one of your company's subsidiaries Albert Equipment Centre Ltd.

In cooperation with a tracked vehicle manufacture your company designed and manufactured a new terra tired vehicle for use on snow and tundra. Pictures of this vehicle are included in the following pages. It has 32 tires on sixteen dual wheels and eight axles, with all axles driving. It can haul up to 30 tons while exerting a very low pressure on the surface over which it is traveling.

During the year your company incorporated Mackenzie Air Ltd. as a wholly owned subsidiary. This company purchased the assets of Air Commonwealth (Alberta) Ltd. and had an Air Charter License granted to it. In February of this year it entered the small executive jet charter business when it signed a lease purchase agreement on a Gates Learjet Model 25. With this aircraft your company will be able to augment its other land, air and sea transportation services with direct, comfortable, high altitude, high speed transportation. To date results of the air charter operations have been satisfying and a small net profit was realized even though this was the company's first year of operations and all set-up costs were expensed.

Two other subsidiaries were incorporated as wholly owned during the period. One was Harvey Agencies Ltd. which is in the insurance brokerage business and the other is K. C. Services Ltd. which now handles the industrial catering business which was formerly a division of the parent company.

In February of this year your company purchased Arctic Shallow Marine Ltd. which is now a wholly owned subsidiary. Arctic Shallow Marine Ltd.'s main assets are two seismic tugs which are under lease to a customer and are doing seismic work in the Mackenzie Delta.

Moffat Tank Co. Ltd. also became a wholly owned subsidiary in April of this year when your company purchased all the issued and outstanding shares of that company. This company manufactures, sells and services most types of oil and gas processing equipment throughout Northern and Western Canada. They also manufacture and sell and service a snowmelter which is protected by a patent pending. This piece of equipment is used mainly by oil companies in the north where water supply is a problem in winter. Research work is also progressing on a sewage disposal unit for use in the same remote Northern locations.

To finance expansion your company issued 225,000 common shares of the company in December of 1970. This increased the company's equity base and strengthened its financial position for future borrowing. Your company's equity is now $10,116,000 or $4.15 per share up from $7,229,000 or $3.34 per share.

Experts are predicting that billions of dollars will be spent in the North on oil and gas exploration, subsequent production and pipelines over the next five to ten years with a relatively large percentage for transportation. Much has also been written and said about the methods to be used for this exploration, the probable reserves, and the methods of transporting the oil and gas found to market. Your company's management is continually watching these developments carefully and maintaining, what they feel, the most advantage position so that your company can benefit from and aid in this tremendous development.

Our thanks and appreciation go out to our shareholders for their continued support and confidence and to our many employees for an outstanding performance which has helped to keep us a leader in our field.

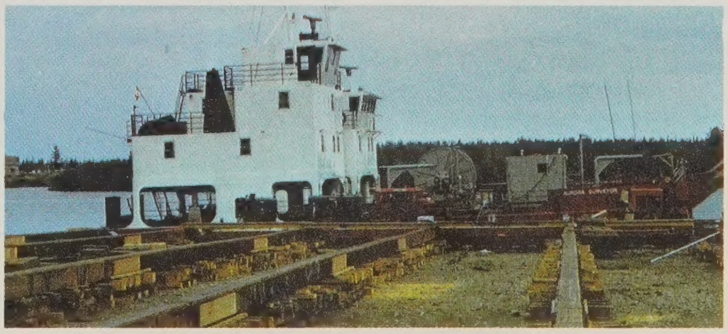
September 10, 1971

Edmonton, Alberta.

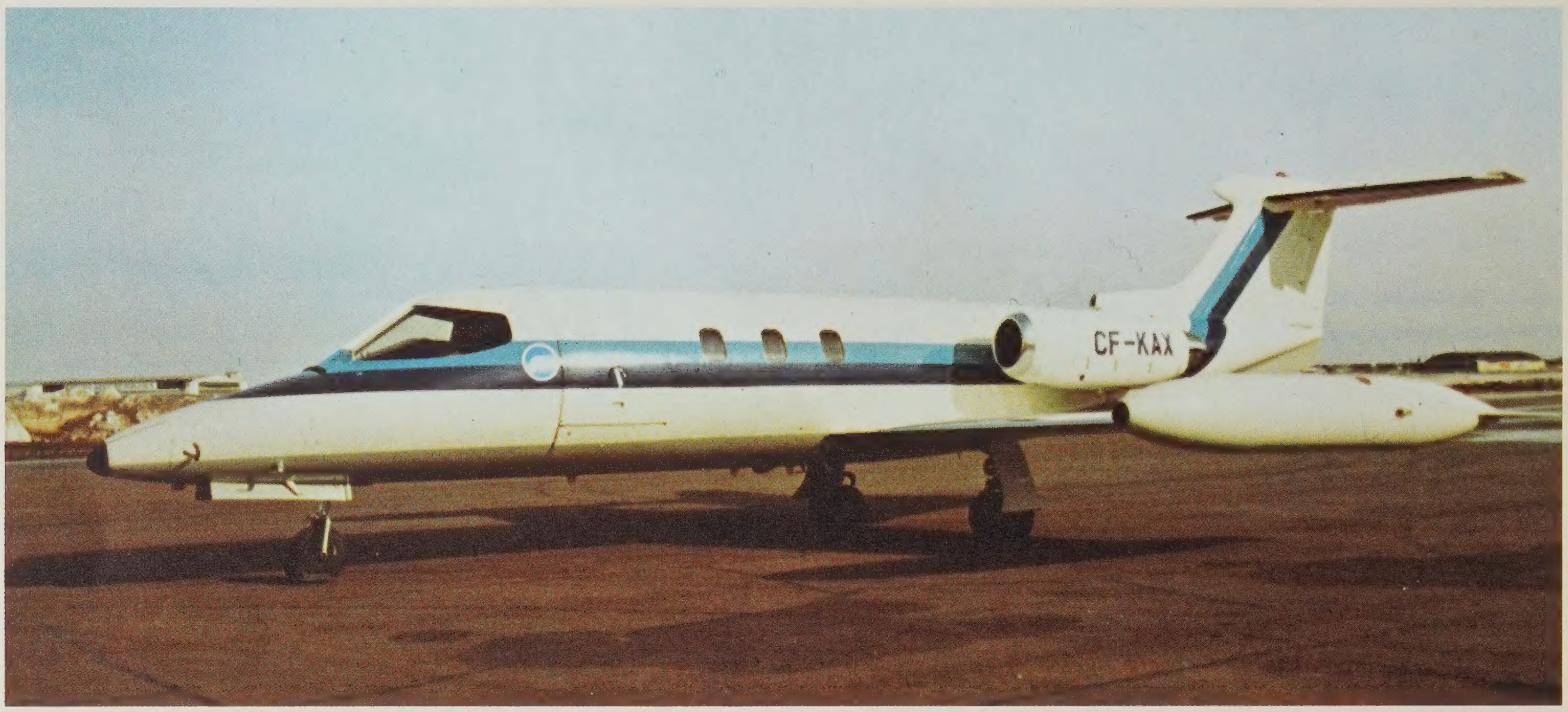
R. Kapchinsky,
President and Chief,
Executive Officer..

Top: Equipment being put ashore by a litering barge.
Middle: Truckload of pipe between Valdez and Fairbanks.

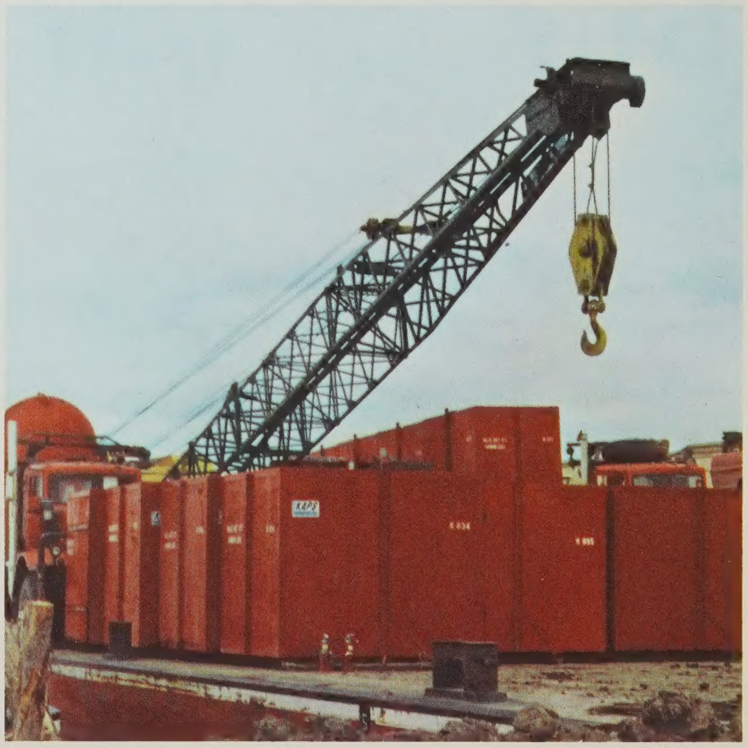
Bottom: Kap's new terra tired vehicle designed by Kaps to haul up to 30 tons over snow and tundra.
Below: A Kaps' tracked vehicle in a remote Northern location with a substructure as a load.

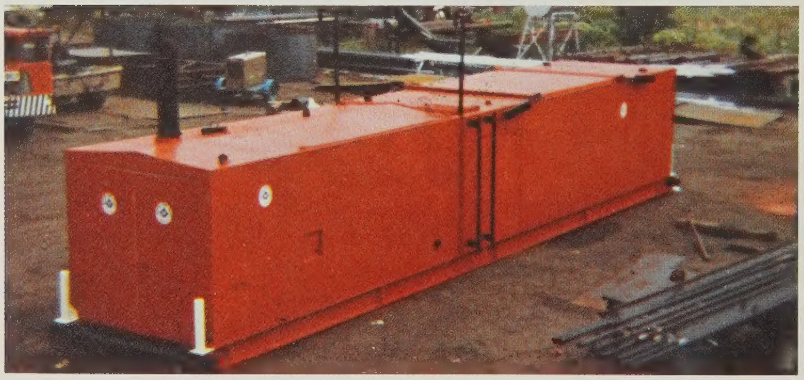


Top: The Beaufort Sea Explorer which Kaps built for use in the delta area of the Mackenzie River and the Beaufort Sea.
Opposite: The shallow draft Arctic Circle No. 1 shunting barges.
Upper Right: The two seismic tugs, side by side, of Arctic Shallow Marine Ltd's just before departing from Hay River for a season's seismic work in the Mackenzie Delta.
Lower Right: Loaded barges waiting to leave for Inuvik.



Top: Mackenzie Air Ltd.'s Gates Learjet Model 25.
Opposite: A Kap's truck and the Learjet at a remote northern Canadian location.





Upper Left: Compressor station under construction by Moffat Tank Co. Ltd.
Lower Left: Snowmelter, manufactured by Moffat Tank Co. Ltd., for use in producing water in remote northern locations capable of melting sufficient snow to produce up to 60,000 gallons of water per day.
Above: Kap's freight containers loaded on a barge.

KAPS TRANSPORT LTD.

and subsidiary companies

CONSOLIDATED STATEMENT OF INCOME

YEAR ENDED JUNE 30, 1971
(with comparative figures for 1970)

	1971	1970
Revenue	$16,193,000	$14,047,000
Direct operating expenses	11,664,000	9,362,000
Administrative expenses	1,447,000	1,298,000
Interest on long-term debt	318,000	173,000
Depreciation	1,231,000	789,000
	14,660,000	11,622,000
	1,533,000	2,425,000
Other income (expense)	52,000	(2,000)
Income before income taxes	1,585,000	2,423,000
Income taxes		
Current	137,000	506,000
Deferred	664,000	690,000
	801,000	1,196,000
NET INCOME FOR THE YEAR	$ 784,000	$1,227,000
Earnings per share		
On a weighted average basis	34.0c	60.5c
On a fully diluted basis	31.9c	56.0c

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

YEAR ENDED JUNE 30, 1971
(with comparative figures for 1970)

	1971	1970
Balance at beginning of year	$2,482,000	$1,455,000
Net income for the year	784,000	1,227,000
	3,266,000	2,682,000
Dividends	231,000	200,000
BALANCE AT END OF YEAR	$3,035,000	$2,482,000

KAPS TRANSPORT LTD.

(Incorporated under the laws of Alberta)
and subsidiary companies

ASSETS	1971	1970
CURRENT ASSETS		
Cash	$ 335,000	$ 321,000
Term deposits	-	335,000
Accounts receivable	3,850,000	2,863,000
Income taxes recoverable	172,000	-
Inventories (note 2)	1,954,000	1,288,000
Prepaid expenses and deposits (note 3)	541,000	266,000
Agreement receivable (note 4)	170,000	170,000
	7,022,000	5,243,000
INVESTMENT IN JOINT VENTURES (note 5)	970,000	-
FIXED ASSETS (note 6)		
Land, buildings and equipment, at cost	14,796,000	10,759,000
Less accumulated depreciation	3,030,000	1,930,000
	11,766,000	8,829,000
INTANGIBLES AND DEFERRED CHARGES		
Debenture discount and issue expenses less amortization	22,000	28,000
Excess of cost over book value at dates of acquiring shares of subsidiaries	2,053,000	1,791,000
Other intangibles, at cost less amortization	27,000	27,000
	2,102,000	1,846,000
	$21,860,000	$15,918,000

Approved by the Board

R. Kapchinsky, Director

L.C. Leitch, Director

CONSOLIDATED BALANCE SHEET — JUNE 30, 1971
(with comparative figures at June 30, 1970)

LIABILITIES	1971	1970
CURRENT LIABILITIES		
Bank advances (note 7)	$ 1,869,000	$ 1,107,000
Accounts payable and accrued liabilities	2,621,000	1,951,000
Income and other taxes payable	-	194,000
Deferred revenue	122,000	-
Principal due within one year on long-term debt	1,094,000	621,000
	5,706,000	3,873,000
LONG-TERM DEBT (note 7)		
9½% Secured debentures, Series B	2,000,000	2,000,000
Bank loans	1,237,000	149,000
Finance contracts	824,000	887,000
Agreements payable	507,000	590,000
	4,568,000	3,626,000
Less principal included in current liabilities	1,094,000	621,000
	3,474,000	3,005,000
DEFERRED INCOME TAXES	2,564,000	1,811,000
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (note 8)		
Authorized		
4,000,000 Common shares without nominal or par value		
Issued		
2,440,515 Common shares (1970 - 2,164,515)	7,081,000	4,747,000
RETAINED EARNINGS	3,035,000	2,482,000
	10,116,000	7,229,000
	$21,860,000	$15,918,000

ESCROWED SHARES (note 9)

SHARE OPTIONS (note 10)

LONG-TERM LEASES (note 11)

CONTINGENT LIABILITIES (note 12)

KAPS TRANSPORT LTD.

and subsidiary companies

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

YEAR ENDED JUNE 30, 1971
(with comparative figures for 1970)

	1971	1970
SOURCE OF FUNDS		
Net income for the year	$ 784,000	$1,227,000
Items not involving current funds		
Depreciation and amortization	1,241,000	798,000
Deferred income taxes	664,000	690,000
	2,689,000	2,715,000
Issue of 9½% secured debentures, Series B	-	2,000,000
Increase in other long-term debt	224,000	616,000
Issue of common shares	2,334,000	3,204,000
Refund of special refundable tax	-	18,000
Reduction in agreement receivable	-	320,000
Working capital (deficiency) acquired on acquisition of subsidiary companies	70,000	(96,000)
	5,317,000	8,777,000
APPLICATION OF FUNDS		
Additions to fixed assets (net)	3,688,000	4,578,000
Investment in joint ventures (note 5)	970,000	-
Acquisition of subsidiary companies	480,000	655,000
Dividends	231,000	200,000
7% Convertible sinking fund debentures, Series A		
Converted	-	2,989,000
Redeemed	-	11,000
Debenture discount and issue expenses	-	30,000
Costs of other intangibles	2,000	29,000
	5,371,000	8,492,000
INCREASE (DECREASE) IN WORKING CAPITAL	(54,000)	285,000
WORKING CAPITAL AT BEGINNING OF YEAR	1,370,000	1,085,000
WORKING CAPITAL AT END OF YEAR	$1,316,000	$1,370,000

AUDITORS' REPORT

To the Shareholders of
Kaps Transport Ltd.

We have examined the consolidated balance sheet of Kaps Transport Ltd. and subsidiary companies as at June 30, 1971 and the consolidated statements of income, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at June 30, 1971 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Edmonton, Alberta
September 4, 1971

Thorne, Gunn, Helliwell & Christenson
Chartered Accountants

KAPS TRANSPORT LTD.
and subsidiary companies
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 1971

1. BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of Kaps Transport Ltd. and all its wholly-owned subsidiary companies; Wizard Transport Ltd., Bolsters Transport Ltd., Alberta Equipment Centre Ltd., R.B.D. Earthmovers Ltd., R. R. Dales Construction Co. Ltd., Dales Holdings Ltd., Norcan Parts & Equipment (1965) Ltd., Al Renk & Sons, Inc., Arctic Shallow Marine Ltd., Moffat Tank Co. Ltd., Mackenzie Air Ltd., Harvey Agencies Ltd., and K. C. Services Ltd.

During the current year, Arctic Shallow Marine Ltd. and Moffat Tank Co. Ltd. were purchased and Mackenzie Air Ltd., Harvey Agencies Ltd. and K. C. Services Ltd. were incorporated.

2. INVENTORIES

	1971	1970
Parts and supplies, at cost which does not exceed market value	$ 877,000	$ 591,000
Automotive and heavy equipment, at lower of cost and net realizable value	1,077,000	697,000
	$1,954,000	$1,288,000

3. PREPAID EXPENSES AND DEPOSITS

	1971	1970
Prepaid expenses	$ 405,000	$ 171,000
Deposits on contracts	136,000	95,000
	$ 541,000	$ 266,000

4. AGREEMENT RECEIVABLE

The $170,000 balance under an agreement receivable arose from the sale in 1969 of all of the shares of Keir Air Transport Ltd. The purchasers are in default under this agreement as a payment due August 15, 1970 was not received. Counsel has been retained to commence collection action. No provision has been made in the company's accounts as it appears at this time that no material loss will be incurred by the company.

5. INVESTMENT IN JOINT VENTURES

Investment in joint ventures represents the amount of outstanding advances, plus the company's share of undistributed earnings of the joint ventures.

6. FIXED ASSETS

	1971			1970
	Cost	Accumulated Depreciation	Net	Net
Land	$ 49,000	$	$ 49,000	$ 14,000
Buildings	259,000	61,000	198,000	200,000
Automotive equipment	7,622,000	1,877,000	5,745,000	4,401,000
Portable field equipment	880,000	301,000	579,000	507,000
Aircraft	232,000	23,000	209,000	356,000
Marine equipment	4,234,000	290,000	3,944,000	2,451,000
Leasehold improvements	50,000	24,000	26,000	15,000
Office and shop equipment	293,000	200,000	93,000	59,000
Aggregate equipment	934,000	229,000	705,000	662,000
Gravel pits	193,000	23,000	170,000	164,000
Roadways	50,000	2,000	48,000	
	$14,796,000	$3,030,000	$11,766,000	$8,829,000

Annual depreciation rates used by the company are:

(a) On a diminishing balance basis:

Buildings	
Concrete-block	5%
Frame	10%
Office and shop equipment	20%
Roadways	4%

(b) On a straight line basis:

Automotive equipment and aggregate equipment	
Tracked equipment	10%
Gasoline powered units	20%
Diesel powered units	10%
Service vehicles	30%
Portable field equipment	20%
Aircraft	12½%
Marine equipment	6 2/3%
Leasehold improvements - equal annual amounts over the life of the lease	

(c) On a production basis:
Gravel pits - annual production over estimated reserves

7. LONG-TERM DEBT

9½% Secured Debentures, Series B:

On March 1, 1970 the company issued secured debentures in the amount of $2,000,000 maturing March 1, 1975, bearing interest at 9½% per annum, secured by a first floating charge on all the assets. The debentures are redeemable, in whole or in part, at any time prior to maturity and carry warrants to purchase 40,000 common shares for $12 per share at any time up to the close of business on March 1, 1975.

Bank Loans:

	1971	1970
11 % Loan, payable $58,000 annually plus interest	$ 230,000	
8 % Loan, payable $10,000 annually with interest payable monthly	30,000	40,000
8 % Loans, payable $27,000 monthly plus interest	669,000	
8 % Loan, payable $8,000 monthly principal and interest	8,000	97,000
8 % Loan, payable $12,000 semi-annually with interest payable monthly		12,000
7½% Loan, payable $100,000 annually with interest payable monthly	300,000	
	$1,237,000	$149,000

The above bank loans and the bank advances included in current liabilities are secured by a general assignment of book debts, chattel mortgages on certain fixed assets and the shares of a subsidiary company.

Finance Contracts:

These contracts are secured by the equipment pledged under the contracts and are payable as follows:

	1971	1970
Year ended June 30, 1971	$	$400,000
Year ended June 30, 1972	458,000	329,000
Year ended June 30, 1973	264,000	158,000
Year ended June 30, 1974	102,000	
	$824,000	$887,000

7. LONG-TERM DEBT (cont'd)

Agreements Payable:

	1971	1970
4 % Agreement payable on the purchase of the shares of Al Renk & Sons, Inc., payable $75,000 U.S. on May 6, 1972 and a final payment of $50,000 U.S. on May 6, 1973	$135,000	$215,000
3 % Agreement payable on the purchase of the shares of Dales Holdings Ltd., payable $25,000 annually on July 20, 1971 to 1973 with a final payment of $265,000 on July 20, 1974	340,000	375,000
7¼% Debenture payable $2,500 monthly plus interest, secured by a first charge on certain fixed assets	20,000	
8¼% Promissory note payable $500 monthly plus interest, secured by a chattel mortgage on certain fixed assets	2,000	
Non-interest bearing agreement payable on the purchase of the shares of Arctic Shallow Marine Ltd., payable December 15, 1971	10,000	
	$507,000	$590,000

8. CAPITAL STOCK

Shares were issued during the year as follows:

	1971		1970	
	Shares	Amount	Shares	Amount
For cash	268,000	$2,262,000	6,000	$ 35,000
For common shares of subsidiary companies:				
Moffat Tank Co. Ltd. (note 1)	8,000	72,000		
Norcan Parts & Equipment (1965) Ltd.			15,000	180,000
On conversion of 7% convertible sinking fund debentures, Series A			403,515	2,869,000
	276,000	$2,334,000	424,515	$3,084,000

9. ESCROWED SHARES

Of the total common shares outstanding, 900,000 are subject to an escrow agreement dated October 4, 1967 between the principal shareholders; Reinhold, Gerhard and Helmut Kapchinsky, Richardson Securities of Canada, and the Royal Trust Company as Trustee, which provides that such shares may be released from escrow or transferred on the books of the company in five equal annual instalments commencing October 1, 1968.

At June 30, 1971 360,000 shares were held in escrow under the terms of this agreement.

10. SHARE OPTIONS

The company has two share option plans under which options to purchase 115,000 common shares are available to senior officers and employees of the company. Options are granted for a five year period but are exercisable as to not more than 20% on a cumulative basis in each year by the optionee and are exercisable only upon completion of the previous year's employment with the company. At June 30, 1971 options have been granted on 95,000 common shares, 30,000 at a price of $5.83 per share which expire on December 31, 1973, and 65,000 at a price of $6.30 per share which expire on June 10, 1976.

In addition to the warrants issued to debenture holders to purchase 40,000 shares of the company at $12 per share, as explained in note 7, an additional 120,000 warrants were issued to purchase common shares of the company at a price of $5.83 per share exercisable until December 31, 1974. During the current year 43,000 warrants were exercised at $5.83 per share leaving 117,000 warrants outstanding, 40,000 exercisable at $12 per share and 77,000 exercisable at $5.83 per share.

11. LONG-TERM LEASES

The company rents from two of its directors, two buildings under long-term "net net" leases which expire August 31, 1977 the annual rentals for which total $28,500. There are options to extend these leases for a further five years at the same annual rentals.

During the current year the company leased from two of its directors, its new office premises under a long-term "net net" lease at an annual rental of $36,000. The lease expires October 31, 1980 and has two five year renewal options at annual rentals to be negotiated.

During the year a subsidiary company entered into a rental purchase contract on an aircraft with an annual rental of $142,000. The contract is for a period of nine years with annual options to purchase at various amounts during the term of the contract.

12. CONTINGENT LIABILITIES

At June 30, 1971 litigation in which the company was involved totalled approximately $242,000. No provision has been made in the accounts because approximately $239,000 will be covered by the company's insurers. It appears at this time that the company will not incur any material losses as a result of these actions.

The company's past service contributions to its executive pension plan, made in the years 1965 and 1966 are presently being reviewed by the Department of National Revenue of Canada. No reassessment of income tax has been made. In the event a reassessment is issued by the Department the amount involved, though undeterminable at present, is estimated to be approximately $80,000.

13. REMUNERATION OF DIRECTORS AND OFFICERS

Aggregate direct remuneration paid or payable by the company to its directors and officers amounted to $111,000 for the year ended June 30, 1971 (1970 - $102,000).


BEAUFORT SEA EXPLORER
EDMONTON ALTA

KAPS

SECOND QUARTER REPORT

DECEMBER 31, 1971

MESSAGE FROM THE PRESIDENT

In the six months ended December 31, 1971 revenues totaled $10,694,000 up from $7,701,000 during the comparable period last year. Net earnings rose to $656,000 from $468,000 or 26.9c per share compared to 19.2c per share, both based on 2,442,182 shares outstanding being the weighted average shares outstanding during the six month period.

This years second quarter was the best second quarter in your company's history with revenues of $5,583,000 and net earnings of $223,000. This is up from last years second quarter which had revenues of $3,456,000 and net earnings of $57,000.

Results of one of the subsidiary companies during the period ended December 31, 1971 were disappointing resulting in margins below what had been expected. This has now passed and management is confident that this susidiary will return to earning its historical margin.

Management is most optimistic of your company's future as it enters the second half of its 1972 fiscal year.

Edmonton, Alberta
February 3, 1972

R. KAPSHINSKY
President and
Chief Extcutive Officer

Lorp report

KAPS TRANSPORT LTD.

and its subsidiary companies

CONSOLIDATED STATEMENT OF INCOME

6 months ended December 31, 1971
(with comparative figures for 1970)
(unaudited)

	1971	1970
Revenue	$ 10,694,000	$ 7,701,000
Expenses:		
Direct Operating	7,623,000	5,533,000
General and administrative	921,000	559,000
Provision for depreciation	700,000	574,000
Interest on long term debt	156,000	104,000
	9,400,000	6,770,000
Operating profit	1,294,000	931,000
Other income	56,000	10,000
Income before income taxes	1,350,00	941,000
Provision for income taxes	694,000	473,000
Net Income For The Period	$ 656,000	$ 468,000
Earnings per share based on 2,442,182 shares outstanding	26.9c	19.2c

AR10

KAPS TRANSPORT LTD.

and its subsidiary companies

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

6 months ended December 31, 1971
(with comparative figures for 1970)
(anaudited)

	1971	1970
Funds Provided:		
From operations		
Net income	$ 656,000	$ 468,000
Non-cash items		
Add — depreciation and amortization	700,000	579,000
— deferred income tax	642,000	(269,000)
	1,998,000	778,000
Increase in common shares	24,000	2,176,000
Increase in long-term debt	1,286,000	—
Reduction in investments in joint ventures	371,000	—
	3,679,000	2,954,000
Funds Applied:		
Reduction of long-term debt	—	452,000
Additions to fixed assets (net)	1,760,000	487,000
Dividends on common shares	123,000	109,000
Additions to intangible assets (net)	9,000	—
	1,892,000	1,048,000
INCREASE IN WORKING CAPITAL	1,787,000	1,906,000
WORKING CAPITAL, JUNE 30	1,316,000	1,370,000
WORKING CAPITAL, DECEMBER 31	$ 3,103,000	$ 3,276,000